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International Bank for Reconstruction and Development

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Table Of Contents

Major Rating Factors

Rationale

Outlook

Stand-Alone Credit Profile: 'aaa'

Business Profile: Extremely Strong

Policy Importance Assessment

Governance And Management Expertise

Financial Profile: Very Strong

Capital Adequacy

Risk Position

Funding And Liquidity

Likelihood Of Extraordinary Shareholder Support

Table Of Contents (cont.)

Appendix

Related Criteria

Related Research

International Bank for Reconstruction and Development

Major Rating Factors

Issuer Credit Rating
Foreign Currency
AAA/Stable/A-1+

Strengths:

- A 'aaa' stand-alone credit profile, reflecting our assessment of the bank's extremely strong business profile and very strong financial profile
- Unsurpassed franchise value, supported by 189 member countries, and expected continued treatment as a preferred creditor
- A risk-adjusted capital ratio of 22% after adjustments as of June 2017, buttressed by $36.9 billion of callable capital from 'AAA' rated member countries
- Prudent financial management and policies

Weaknesses:

- Volatile net and comprehensive income, owing partly to asymmetric accounting treatment of derivatives hedges--fiscal 2017 had negative net income, but comprehensive income was positive for the first time in three years given valuation effects on nontrading activities
- Though increasing, lower funding and liquidity ratios compared with some other more narrowly focused multilateral lending institutions

Rationale

The 'AAA/A-1+' long- and short-term issuer credit ratings on the International Bank for Reconstruction and Development (IBRD) reflect its extremely strong business profile and very strong financial profile.

Our business profile assessment is based on IBRD's governance, role, and public-policy mandate. IBRD's unrivaled franchise value, countercyclical lending, and the commitment of its shareholders support our expectations that the bank will continue to benefit from preferred creditor treatment (PCT). IBRD is the keystone of the World Bank Group, which includes International Development Association (IDA), International Finance Corp. (IFC), Multilateral Investment Guarantee Agency, and International Centre for Settlement of Investment Disputes. IBRD, which commenced operations in 1946, is the world's oldest and largest multilateral lending institution (MLI). As of June 30, 2017 (fiscal year-end 2017), it had 189 member countries, more than twice that of any other rated MLI, except its affiliates, IDA (173 members) and IFC (184 members).

IBRD had $406 billion in total assets at fiscal year-end 2017, of which 44% was loans--the bank's main development-related activity--reflecting its global reach. In fiscal 2017, IBRD committed $22.6 billion of new purpose-related exposures, a decrease of 24% from 2016. The decline reflected a drop in the Development Policy

Financing and Program for Results operations given two large operations in fiscal 2016 in the Sustainable Development Cluster. The bank's commitments remain below the recent countercyclical peak in 2010 of $44.2 billion.

IBRD's exposures continue to be diversified globally. The top five exposures are unchanged from the prior fiscal year: Brazil, Indonesia, Mexico, China, and India, and we do not expect any short-term change to the main borrowers. We believe IBRD's track record of PCT remains solid, reflecting its robust franchise value. The bank has only one borrowing country in nonaccrual status as of June 2017--Zimbabwe has been in nonaccrual since October 2000. The bank is still in discussions with the government of Zimbabwe to clear these arrears (currently $0.4 billion in principal). The country cleared its arrears with the International Monetary Fund in October 2016.

Our assessment of IBRD's financial profile as very strong reflects our calculation of its risk-adjusted capital (RAC) ratio of 22% before adjustments, and 22% after adjustments for concentration risk and PCT, as well as the bank's funding and liquidity. Absent any general capital increases or large valuation effects, we believe the RAC ratio will remain stable. The main adjustment in IBRD's RAC is its single-name exposure to borrowing member countries, partially offset by our expectation for PCT and geographic diversification. In March 2011, IBRD's board of governors approved a 44% increase in both subscribed capital (US$87 billion) and paid-in capital ($5.1 billion). At fiscal year-end 2017, $78.7 billion in additional capital had been subscribed and $4.6 billion had been paid in, demonstrating robust shareholder support. Discussion of another potential capital increase with shareholders is pending as the prior general capital increase concludes in March 2018. The RAC ratio after diversification does not reflect the criteria correction published on July 11, 2017. We believe the impact of the correction on the ratio is not material to the rating.

Comprehensive income was positive in fiscal 2017--the first time in three consecutive years--totaling $2.5 billion (6.3% of adjusted common equity). This follows losses of $2.4 billion and $0.9 billion in fiscal 2016 and 2015, respectively. This increase was mainly the result of net actuarial gains on benefit plans (due to higher asset returns and an increase in interest rates used to discount the pension liabilities) and a positive currency translation adjustment (due to the appreciation of the euro against the U.S. dollar in fiscal 2017). Given cost-reduction targets and lower transfers to IDA, we expect earnings, excluding market value effects on derivatives and pension plans, to strengthen over the coming years.

During fiscal 2017, IBRD's board of directors approved a formula-based approach for determining IBRD's transfers to IDA, which links transfers to IBRD's allocable income. Coupled with the terms for the 18th replenishment of IDA, IBRD's transfers to IDA will be lower over the next three years (beginning fiscal 2018) than they were in the prior three years. Using the formula approach, the board approved a transfer of $123 million for fiscal 2017, which will appear in its fiscal 2018 financial results. IDA (AAA/Stable/A-1+) recently acquired authorization to leverage its balance sheet to support its own lending capacity.

The World Bank Group has committed to deliver cost-saving reforms. IBRD's management expects to achieve important cost savings by fiscal year-end 2018 under its budget anchor policy. The bank continues to make progress as net loan spread revenues covered a greater share of net administrative expenses again in fiscal 2017. IBRD's measure of net administrative expenses rose by 2% in fiscal 2017 after declining 1% in fiscal 2016, mainly because of increased pension costs.

Our funding ratios for 2017 indicate that IBRD does not have a funding gap below the one-year horizon: IBRD's assets exceed its liabilities at all horizons up to two years, supporting its robust funding. Furthermore, we view IBRD's funding as broadly diversified by both geographic market and type of investor, given its frequent issuance in many markets and currencies. For example, it made its inaugural Mulan issue, an SDR (special drawing rights)-denominated bond issued in the Chinese local market, in 2016. Investors perceive IBRD as a safe haven and benchmark supplier of green bonds.

IBRD revised its liquidity policy effective June 2017 to cover its projected outflows over the next 12 months, rather than the prior six-month horizon. IBRD's liquid asset portfolio (our definition) increased during the fiscal year to $73.7 billion as of June 30, 2017, up 34% from fiscal 2016. Our calculation of IBRD's liquidity incorporates stressed market conditions and assumes no market access. Under these conditions, we conclude that IBRD's liquid assets are sufficient to service its obligations through the next year without slowing the pace of planned disbursements. According to our calculations, IBRD's liquidity ratio, assuming scheduled disbursements, was 2.0x at the six-month horizon and 1.3x at the one-year horizon as of June 30, 2017. These ratios have risen since 2016 given the higher levels of liquidity IBRD is holding. However, under this same stress scenario, we estimate IBRD may need to spread out any unforeseen increase in its potential disbursements while meeting other obligations.

Even without accounting for extraordinary shareholder support, we assess IBRD's stand-alone credit profile (SACP) at 'aaa', our highest level. Should IBRD's stand-alone capital adequacy weaken, the issuer credit rating would benefit from uplift. We would expect 'AAA' rated shareholders to answer one or more calls on their subscribed callable capital. Ten 'AAA' rated shareholders subscribed $36.9 billion of callable capital (18% of total gross debt at fiscal 2017). If IBRD's stand-alone capital ratios were to decline, the effect on its SACP could be counterbalanced by up to two notches, all else being equal. This would reflect the (currently latent) benefit of IBRD's 'AAA' callable capital.

Outlook

The stable outlook reflects our view that IBRD's business profile, capital levels including callable capital, funding, and liquidity are sufficiently robust that there is a less than one-in-three probability that we would lower our issuer credit rating on IBRD in the next two years.

That said, if IBRD's business profile weakens or the financial profile deteriorates, the ratings would come under pressure. This could happen if management--contrary to our expectations--adopts more aggressive financial policies, if IBRD's derivative activities generate significant losses as a result of mismanagement, or if several members cease treating IBRD as a preferred creditor.

Stand-Alone Credit Profile: 'aaa'

Our assessment of IBRD's SACP at 'aaa' combines our opinion that IBRD's business profile is extremely strong and its financial profile is very strong.

Table 1

Selected Indicators	Annual Jun-2017	Annual Jun-2016	Annual Jun-2015	Annual Jun-2014	Annual Jun-2013
Balance sheet characteristics					
Liquid assets/adjusted total assets (%)	18.1	14.8	14.7	13.7	12.8
Purpose-related assets (gross) /adjusted total assets (%)	44.2	45.7	45.7	42.9	44.2
Net loans/adjusted total assets (%)	43.7	45.2	45.2	42.3	43.5
Public-sector (including sovereign-guaranteed) loans/total loans (%)	100.0	100.0	100.0	100.0	100.0
Other indicators					
RAC ratio after adjustments (%)	22.0	21.0	24.0	25.0	29.0
Static funding gap* at 1 year (x)	1.4	1.2	1.1	1.0	1.0
Gross debt/adjusted common equity (x)	5.2	4.9	4.2	4.1	3.6
Short-term debt (by remaining maturity)/gross debt (%)	18.9	19.0	23.2	24.0	25.1
Net income/average adjusted assets (%)	(0.1)	0.1	(0.2)	(0.3)	0.1

*The static funding gap is maturing assets divided by maturing liabilities. It is cumulative and based on scheduled receipts and payments.

Business Profile: Extremely Strong

We base our assessment of IBRD's business profile on its policy importance to its shareholders and its governance and management expertise.

Policy Importance Assessment

IBRD, which commenced operations in 1946, is the oldest MLI and the largest, by shareholders. At its fiscal year-end 2017 (June 30), it had 189 member countries (from fewer than 50 in 1946), more than twice that of any other MLI, except its affiliates within the World Bank Group, of which IBRD is the keystone. We therefore view IBRD as having an exceptionally well-established policy mandate, with a track record that includes a number of credit cycles and capital subscription increases.

In March 2011, IBRD's board of governors approved an increase in subscribed capital of $87 billion. The bank expects this to result in an increase in subscribed and paid-in capital of 44%, to be completed in 2018. We view this increase as significant proof of support from the bank's shareholders. As of June 30, 2017, $78.7 billion in additional capital had been subscribed and $4.6 billion had been paid-in, of which $304 million was received during the year. No shareholder has withdrawn from IBRD recently, and none are expected to. IBRD has a track record of generally benefiting from PCT, and we expect this to continue. IBRD's shareholders also exempt it from all taxation.

Another factor supporting IBRD's policy importance is that we view its Articles of Agreement, created at the Bretton Woods Conference in 1944, as equivalent to a treaty.

Under its articles, IBRD may lend directly, guarantee, or participate in loans to any member country or political subdivision thereof, as well as to any business, industrial, or agricultural enterprise in a member's territories. However, when the member itself is not the borrower, its central bank or similar agency acceptable to IBRD must fully guarantee payment of principal, interest, and other charges on the loan. (Although, IBRD may lend to IFC without a guarantee, and its loans to the Caribbean Development Bank are guaranteed by the governments of the countries that receive the loans.) IBRD's articles call upon the bank to "pay due regard to the prospects that the borrower ... will be in a position to meet its obligations under the loan." They also require that "the Bank shall act prudently in the interests of ... the members as a whole." IBRD does not currently sell its loans.

As of July 1, 2017, there were 189 members. Of the bank's 189 members, 144 were in principle eligible to borrow from IBRD or IDA or both. Of these, 69 were eligible to borrow only from IBRD, 16 from both IBRD and IDA, and 59 from IDA.

In addition, IBRD offers a number of other kinds of development-related services to its members, including:

- Derivatives (including interest rate swaps, caps, collars, and cross-currency swaps);
- Guarantees on loans by private-sector lenders for projects in member countries, with the member's counter-guarantee;
- Grants;
- Investment management and trust fund administration; and
- Consultation, research, and training.

We believe these ancillary services enhance IBRD's policy importance to its members.

Table 2

Principal Business Activities

	Annual Jun-2017	Annual Jun-2016	Annual Jun-2015	Annual Jun-2014	Annual Jun-2013
Purpose-related assets (gross)/adjusted total assets (%)	44.2	45.7	45.7	42.9	44.2
Net loans/adjusted total assets (%)	43.7	45.2	45.2	42.3	43.5
Public-sector (including sovereign-guaranteed) loans/total loans (%)	100.0	100.0	100.0	100.0	100.0
Memo:					
Total guarantees	5,687	5,220	1,432	1,804	1,881
Total adjusted assets*	405,898	371,260	343,225	358,883	325,601

*Adjustments made to reported shareholders' equity to calculate adjusted common equity (an institution's cash capital) are carried through to total assets.

Governance And Management Expertise

IBRD has the most diverse and balanced composition of government shareholders of any MLI. IBRD's largest voteholders at fiscal year-end 2017 were the U.S. (16.32% of voting power), Japan (7.04%), the People's Republic of

China (4.55%), the Federal Republic of Germany (4.12%), the Republic of France (3.86%), the U.K. (3.86%), the Republic of India (2.99%), the Kingdom of Saudi Arabia (2.85%), the Russian Federation (2.85%), the Republic of Italy (2.71%), and Canada (2.5%).

Member countries not eligible to borrow from IBRD or IDA at fiscal year-end 2017 held more than 66.70% of total voting power.

Another factor supporting our assessment of governance and management is that there's no private-sector shareholding. Senior staff also possess considerable aggregate expertise and experience and are large enough in number that key-person risk is minimal.

Under IBRD's Articles of Agreement, all its powers are vested in its board of governors, to which each member country may appoint a governor and an alternate and which must meet at least annually. With some specific exceptions, decisions are delegated to the 25 executive directors, one of whom is appointed by each of the six largest shareholders and the others elected by the remaining members. However, two of the elected directors--those for Russia and Saudi Arabia--currently represent single-country constituencies. Except as the articles expressly provide, matters before the boards of governors and directors are decided by majority vote. IBRD's chief executive is its president, Jim Yong Kim, who assumed office on July 1, 2012, and was reappointed in September 2016 for a second five-year term commencing on July 1, 2017. The total of salaried staff is more than 12,000, including IDA, about two-thirds of whom are based at its main offices in Washington, D.C. and the rest in more than 100 country offices.

IBRD has superior financial and risk-management policies, including what we assess as generally careful management of risks emanating from IBRD's considerable financial derivatives operations, and conservative investment of liquid assets.

To enhance lending capacity and improve margins, IBRD's executive directors approved new measures in 2014 within a new financial stability framework. This entails an increase in the single borrower limit (SBL) and an extension of the maximum and average maturities for IBRD loans. To support the cost of these changes, the bank implemented an annual 50-basis-point surcharge on loan exposure exceeding the previous SBL, as well as an increase of its maturity premium charges. In addition, IBRD reintroduced an annual 25-basis-point commitment fee on undisbursed balances on its loans. The bank also reduced the minimum equity-to-loan ratio to 20% from 23% to broaden the amount of lending possibly funded by shareholders' equity.

The World Bank's management aims to achieve a gross cost saving of $400 million for the World Bank Group by fiscal year-end 2018, net of reinvestments and growth in business. To that end, in 2015 the IBRD adopted a "budget anchor" to streamline costs with the goal of having its administrative expenses met by its loan spread revenue.

As part of the "Voice reforms" aimed at enhancing the voice and participation of developing and transitional countries (DTCs) in IBRD, shareholders agreed to two selective capital increases (SCI), one of which was for allocating fully callable shares to certain DTCs. As a result of these capital increases, the voting power of DTCs increased to 45.9% as of June 30, 2017, from 42.6% as of June 30, 2008.

In June 2017, the board approved a new liquidity policy. It targets liquidity of 12-months coverage of its projected net loan disbursements and projected debt service, as calculated at the start of every fiscal year. The bank's target liquidity level for fiscal 2018 is $52 billion. According to IBRD's calculations, its liquid asset portfolio was $70.1 billion, or 135% of the target liquidity level in effect for fiscal 2018.

In addition, eligibility criteria for securities in IBRD's liquid asset portfolio include:

- Ratings of 'A-' or higher for time deposits, bankers' acceptances, and other obligations issued or unconditionally guaranteed by banks or other financial institutions;
- Ratings of 'AA-' or higher for debt issued by sovereigns, government agencies, or MLIs, unless, in the case of sovereign debt only, such debt is denominated in the national currency of the issuer, in which case no rating is required; and
- 'AAA' ratings for corporate or asset-backed securities.

In addition, risk on IBRD's considerable swap book is controlled via volume limits by counterparty and mark-to-market collateral arrangements.

Although IBRD's chief risk officer (CRO) reports to IBRD's chief financial officer (CFO) (implying less independence for the risk-management function than if the CRO and CFO were at equivalent levels), we believe risk-management considerations receive as much senior management attention as do questions of funding cost and other measures of financial performance, given both IBRD's nonprofit mandate and its prudent track record.

IBRD redistributes its earnings to the benefit of other World Bank Group members (such as IDA) and other causes (such as the Trust Fund for Gaza and West Bank). Since fiscal 2001, board of governors-approved transfers have not been less than $402 million annually. In fiscal 2016, these transfers amounted to $705 million, despite the institution's comprehensive loss of $2.4 billion, while in fiscal 2017, they were $497 million. In determining the size of its transfers, IBRD employs its own definition of net allocable income. This measure differs from the accounting definition of comprehensive income in its financial results; S&P Global Ratings uses reported comprehensive to calculate adjusted common equity (ACE)--not allocable income. That said, we expect transfers to decline over the coming years on lower transfers to IDA. During fiscal year 2017, the board approved a formula-based approach for determining IBRD's transfers to IDA that links transfers to IBRD's allocable income level for that given year. The board recommended and approved a total transfer to IDA of $123 million for fiscal 2017. We expect transfers to be around $500 million during the 18th IDA replenishment--namely from fiscal 2018-2020--down from $2 billion in the prior IDA replenishment. In addition, IDA recently acquired capacity to leverage its own balance sheet to support its lending capacity.

In addition, IBRD deploys some of its members' local currency paid-in capital by lending it to the IFC under the Local Currency Loan Facility Agreement. IFC, in turn, lends these funds to private-sector clients located in IBRD member countries. As of June 30, 2017, IFC had repaid its loan under this facility ($9 million in 2016), which is capped at $300 million. Furthermore, the bank approved additional lending to IFC on July 5, 2012, up to $197 million. As of June 30, 2017, IBRD had $196 million of loans outstanding to IFC; this loan was repaid by Sept. 30, 2017.

Financial Profile: Very Strong

Our opinion of IBRD's financial profile is based on its capital adequacy, funding, and liquidity. IBRD prepares its financial statements according to U.S. generally accepted accounting principles.

Capital Adequacy

As of fiscal year-end 2017, our RAC ratio for IBRD was 22% before adjustments--a very high ratio for a commercial bank. The ratio was also 22% after adjustments, mainly because the single-name concentration of the portfolio was offset by PCT and geographical diversification. The ratios were up compared with the end of the 2016 fiscal year, the first year of improvement following five consecutive years of decline. The improvement was primarily the result of an increase in capital due to a significant increase in comprehensive income (reversing a previous comprehensive loss in fiscal year 2016).

New loan commitments decreased by 24% in 2017, to $22.6 billion, compared with the previous financial year, which somewhat exceeds the precrisis years but is still 51% of the $44.2 billion peak in 2010. Disbursements decreased a bit less, by 21% to $17.9 billion.

As of June 30, 2017, IBRD's outstanding loans and callable guarantees totaled $179.4 billion, 60.5% of the statutory lending limit.

Table 3

International Bank for Reconstruction and Development RACF [Risk-Adjusted Capital Framework] Data: 2017

(Mil. US$)	Exposure	S&P Global Ratings RWA	Average S&P Global Ratings RW (%)
Credit risk			
Government and central banks	258,035	153,388	59
Institutions	36,118	7,119	20
Corporate	19	16	86
Retail	0	0	0
Securitization	4,394	857	20
Other assets	2,656	4,904	185
Total credit risk	301,221	166,285	55
Market risk			
Equity in the banking book	1,033	7,004	678
Trading book market risk	--	0	--
Total market risk	--	7,004	--
Insurance risk	--	0	--
Operational risk	--	4,603	--
RWA before MLI diversification	--	177,892	100

Table 3

International Bank for Reconstruction and Development RACF [Risk-Adjusted Capital Framework] Data: 2017 (cont.)

MLI adjustments			
Industry and geographic diversification	--	(22,587)	(13)
Preferred creditor treatment	--	(57,431)	(32)
Single-name concentration	--	86,189	48
High risk exposure cap	--	(2,309)	(1)
Total MLI adjustments	--	3,862	2
RWA after MLI diversification	--	181,754	102

	Adjusted common equity	**S&P Global Ratings RAC ratio (%)**
Capital ratio before adjustments	39,798	22.0
Capital ratio after adjustments		22.0

Note: The RAC ratio after diversification does not reflect the criteria correction published on July 11, 2017. We believe the impact of the correction on the ratio is not material to the rating. MLI--Multilateral lending institutions. RW--Risk weight. RWA--Risk-weighted assets.

Loan pricing

IBRD generally does not vary its loan pricing among its borrowing member countries, though special development policy loans carry higher pricing than standard loans. Standard loan pricing involves a contractual spread of 50 basis points (bps), a front-end fee of 25 bps, and a charge to cover IBRD's funding cost.

Within the new financial stability framework introduced in fiscal 2014, the bank restored a 25-basis-point commitment fee per year. In addition, it implemented a surcharge of 50 bps on loan exposures exceeding the previous SBL ($16.5 billion for China, Indonesia, Brazil, and Mexico and $17.5 billion for India) to support the increase in the SBL.

The bank also increased its maturity premium charge. The new structure includes six maturity buckets, with the premium increasing in 10-basis-point increments for loans with average maturities greater than eight years. Each bucket is two years from eight to 12 years, and it's three years beyond that. The maximum maturity premium charge is therefore 50 bps for loans with average maturity over 18 years to a maximum limit of 20 years.

Where applicable, the pricing also includes a market risk premium and a basis swap adjustment for some currencies. A late service charge of 50 bps per year applies to payments received 30 days or more after the due date.

Pricing on special development policy loans involves a minimum fixed spread over six-month LIBOR of 200 bps, a front-end fee of 100 bps, a three-to-five-year grace period, and a final maturity of five to 10 years.

Loan maturities

Following the implementation of the new financial sustainability framework, IBRD has extended the maximum maturity for its loans and guarantees to 35 years and the maximum average maturity to 20 years. IBRD's historical focus has been on medium- and long-term lending, with maturities for standard loans typically 15 years to as long as 30 years (with grace periods of three to eight years for repayment of principal). The loan portfolio's weighted average maturity was 9.46 years at fiscal year-end 2017, little changed from 9.5 years at fiscal year-end 2016 and up from 8.05 years in 2010.

Guarantees

IBRD's articles permit it to issue guarantees, although it has made only limited use of this. Guarantees totaled $5.7 billion, or 3.2% of loans, as of June 30, 2017--near their highest levels since 2000.

IBRD provides guarantees of $175 million to the GAVI Alliance (which is administering the Advance Market Commitment for Vaccines against Pneumococcal Diseases [AMC]) whereby the bank will cover any delay in expected funding pledged by donors to the AMC. More generally, countries eligible to borrow from the bank are also eligible for its guarantee program. The same country creditworthiness and project evaluation criteria apply, and each guarantee requires the member country government's counter-guarantee. In exceptional cases, the bank may also offer loans and guarantees for loans for foreign-exchange-generating projects in countries ordinarily eligible to borrow only from IDA.

During fiscal 2014, IBRD and the Multilateral Investment Guarantee Agency agreed to exchange $120 million of notional exposures on their respective balance sheets. The two institutions provided a guarantee on the other's loan principal and interest exposure.

In fiscal 2016, IBRD entered into two Exposure Exchange Agreements (EEA) with AFDB and IADB. In practice, those three MLIs are providing off-balance-sheet credit guarantees to partially cover the sovereign exposure originated by another MLI. The aim of the EEA is to mitigate loan concentration on their respective balance sheets. The total amount of exposure exchanged among the three institutions on Dec. 15, 2015, was $6.5 billion, of which $3.7 billion was for IBRD (1% of total assets as of fiscal year-end 2016).

Leverage

Under its articles (as applied), IBRD's total direct loans outstanding net of loan-loss provisions, callable guarantees, and loan participations (of which the bank has none) are limited to 100% of its subscribed capital, reserves, and surplus (the statutory lending limit). This ratio was 60.5% at fiscal year-end 2017, similar to the ratios of 58% and 56% in fiscal 2016 and 2015, respectively. IBRD could thus almost double its net loans and guarantees outstanding and remain within the limit its articles established.

For management purposes, IBRD closely monitors its equity-to-loans ratio, which it calculates on a reported basis rather than fair value, and whose minimum level has been revised to 20% from 23%. This reduction enables the bank to make broader use of shareholders' equity to fund a larger volume of loans. This ratio increased slightly to 22.8% in fiscal 2017 from 22.7% and 25.1% at fiscal year-end 2016 and 2015, respectively. We expect the equity-to-loans ratio to gradually stabilize over the next few years.

Disbursements decreased by 21% to $17.9 billion during fiscal 2017. Net loan disbursements were $8.7 billion in fiscal year 2017, a 34% decrease from the previous year. Currency translation gains of $1.1 billion were supported by a 2% appreciation of the euro against the U.S. dollar, compared with the 1% depreciation of the euro during the same period last year.

Treasury activities

IBRD's investment portfolio is composed of a liquid asset portfolio, AMC holdings, and a postemployment benefit plan. In fiscal 2012, the board approved a postretirement contribution reserve fund to stabilize the bank's contributions to the pension plans. During fiscal year 2014, the available-for-sale securities portfolio was liquidated.

Credit risk. IBRD's treasury-related credit exposure consists of holdings of securities (99.97%) and net swap exposures (0.03%). The bank holds securities that are high-quality debt instruments issued by government agencies, banks, and corporate entities (57% of the total as of June 30, 2017), as well as sovereign governments (43%). Of these securities, 27% were rated 'AAA', 38% are 'AA', and 35% are 'A'. Exposure to sovereign counterparties in the 'A' category have increased relative to prior years given management's decision to increase the diversification of the investment portfolio by broadening investment assets. Of the net swap exposure, none was to the 'AAA' or 'AA' rated counterparties, 85% to 'A' rated ones, 12% to 'BBB' rated ones, and 4% to 'BB' rated or lower. To contain counterparty credit risk further, the bank uses legally enforceable close-out netting agreements and obtains collateral.

IBRD had $4.4 billion in asset-backed securities at fiscal year-end 2017.

IBRD purchased a $190 million security issued by the Austrian bank Hypo Alpe-Adria, fully guaranteed by the state of Carinthia in fiscal 2007. During fiscal 2014, declines in the security's market value followed the bank's nationalization and as the Austrian national parliament waived the state's guarantee and cancelled the underlying debt securities. In July 2015, Austria's constitutional court overturned the cancellation of the guarantee. While the court decision removed the legal impediment to recovery, the price of the security continued to reflect concerns about the underlying asset value. During this period, IBRD accepted a tender offer to exchange the original security for a new zero coupon bond maturing over 18 years. The security had a carrying value of $44 million as of fiscal year-end 2016. In October 2016 (during fiscal 2017), the bank sold this security on the market for a gain of $35 million, in the current 2017 fiscal year.

Interest-rate risk. Interest-rate risk arises in two main ways:

- From the interest-rate sensitivity of the income from the portion of interest-earning assets that equity funds (lower interest rates translate into lower contributions to income); and
- From the interest-rate sensitivity of the net spread between IBRD's interest-earning assets and the cost of the borrowings that fund those assets. That most of the bank's loans are cost-pass-through has historically mitigated the net spread's interest-rate sensitivity. IBRD mitigates the interest-rate risk on noncost-pass-through loans by using interest-rate swaps to closely align the rate sensitivity of these loans with that of their funding.

Interest-rate risk also arises from a variety of other factors, such as differences in timing between the contractual maturity or repricing of IBRD's assets, liabilities, and derivative financial instruments. To mitigate its exposure to mismatches in LIBOR reset dates between assets and liabilities, the bank occasionally executes overlay interest-rate swaps.

Exchange-rate risk. To minimize exchange-rate risk, IBRD uses swaps to match the currency of its borrowing obligations to the currency of its assets. The bank also seeks to minimize the exchange-rate sensitivity of the equity-to-loans ratio by periodically aligning the currency composition of its equity to that of its loans outstanding.

Earnings

In fiscal year 2017, the bank posted a net loss of $237 million, compared with a gain of $495 million and loss of $786 million in fiscal 2016 and 2015, respectively. Among other items, this reflected unrealized mark-to-market net losses on the nontrading portfolios of $413 million in 2017, in contrast with fair value net gains of $698 million and $57 million in fiscal 2016 and fiscal 2015, respectively, on nontrading portfolios.

Table 4

Adjusted Common Equity (ACE)	Annual Jun-2017	Annual Jun-2016	Annual Jun-2015	Annual Jun-2014	Annual Jun-2013
Shareholders' equity (reported)	39,798	37,063	38,637	38,985	39,523
Less (-):					
Capital payments committed (subscribed) but not yet due	N/A	N/A	N/A	N/A	N/A
Capital payments due but not yet received	N/A	N/A	N/A	N/A	N/A
Promissory notes receivable*	N/A	N/A	N/A	N/A	N/A
Maintenance of value receivables on currency holdings§	N/A	N/A	N/A	N/A	N/A
Capital subscriptions in restricted currencies	N/A	N/A	N/A	N/A	N/A
Unrecognized employee pension or other post-retirement benefit liability	N/A	N/A	N/A	N/A	N/A
Other adjustments to deduct noncash equity items	N/A	N/A	N/A	N/A	N/A
Total adjustments to shareholders' equity	N/A	N/A	N/A	N/A	N/A
ACE	39,798	37,063	38,637	38,985	39,523

*Promissory notes are notes from shareholders, which a multilateral financial institution may have accepted from shareholders in lieu of cash capital and which are carried on the balance sheet as shareholders' equity. Promissory notes exclude callable capital, which most institutions do not count as balance sheet capital. §Currency fluctuations between an institution's operating currency and capital valued in restricted currency generate maintenance of value (MOV) assets and liabilities for some multilateral financial institutions. S&P Global Ratings deducts MOV assets from shareholders' equity. N/A--Not available. N.M.--Not meaningful.

Risk Position

The MLI-adjusted RAC is based on our calculation of the RAC after adjustments (to our risk weights) for the amount of diversification and (expected) PCT. As of fiscal year-end 2017, our MLI-adjusted RAC ratio for IBRD was 22%, with our assumption that IBRD's generally strong track record of receiving PCT will continue and that any losses, in the event of a borrower's default, will be minimal.

If IBRD's borrowers were to abandon PCT entirely, our MLI-adjusted RAC ratio for IBRD would decline noticeably. Our RAC ratio also takes into account our view that IBRD manages its exposures carefully, even compared with the MLI sector.

The adjusted RAC ratio rose marginally relative to fiscal year-end 2015 and 2016 because of an increase in comprehensive income that increased ACE and growth in the bank's loan portfolio, or, its exposure at default (EAD).

Exposure concentrations

Although IBRD had loans outstanding to 77 countries at fiscal year-end 2017, the amounts of these loans vary widely. IBRD's board limits total credit exposure for any single country. Currently, the maximum exposure for a single borrowing country is the lower of 10% of the bank's statutory lending limit (the equitable access limit) or an SBL. The SBL is $19 billion for China, Indonesia, Brazil, and Mexico, and $20 billion for India. Indonesia was closest to its SBL at fiscal year-end 2017. However, its loans outstanding of $16.4 billion were still over $3.5 billion below the SBL.

IBRD's loans have historically performed much better than those of commercial lenders. In its 69 years of operation, the bank has never written off a loan in the strictest sense, although it has experienced late payments, resulting in economic losses for the bank even without write-offs. In our view, this largely reflects the PCT that borrowing member countries have usually accorded the bank, generally remaining current on their loans and, on those occasions when they have gone into arrears, eventually repaying principal and interest in full.

We believe the strong performance of IBRD's loan portfolio also reflects four other factors. First, the poorest and least-creditworthy members are not permitted to borrow from IBRD--they can only borrow from IDA. In addition, the Heavily Indebted Poor Countries Initiative (to which IBRD, IBRD shareholders, and other MLIs made financial contributions) effectively cancelled the debt of certain countries with significant debt and very limited ability to pay. Lastly, under very special and extreme circumstances, the bank has overridden its normal policy and rescheduled loans for three members (Bangladesh in 1975, Bosnia and Herzegovina 1996, and Serbia and Montenegro in 2002). The criteria approved in connection with the rescheduling of Bosnia and Herzegovina's loans (which also formed the basis for Serbia and Montenegro's rescheduling and would also have qualified Bangladesh's rescheduling) limit eligibility for reschedulings to countries that:

- Have emerged from a current or former member of IBRD;
- Are assuming responsibility for a share of the debt of such a member;
- Have limited ability to service their debt and impaired creditworthiness because of a major armed conflict in their territories involving extensive destruction of physical assets; and
- Would significantly improve their repayment capacity with the rescheduling, assuming they take appropriate supportive measures.

In addition, its borrowers have sometimes been late--occasionally very late--in meeting their obligations. As of June 30, 2017, IBRD's loan or guarantee in nonaccrual status was to Zimbabwe and represented 0.2% of the bank's loans; this loan has been nonaccrual since October 2000. On July 16, 2013, all of IBRD's loans made to or guaranteed by Iran were placed into nonaccrual status. The principal outstanding of these loans amounted to $697 million, of which $45 million was overdue at that date. All of these arrears were resolved, and IBRD moved all outstanding loans to the Islamic Republic of Iran back to performing status on Sept. 27, 2013.

Zimbabwe remains in nonaccrual, and the bank continues to be in discussions with the government to clear these arrears. The country cleared its arrears with the International Monetary Fund in October 2016.

Table 5

Five Largest Country Loan Exposures (Unweighted)*

(Mil. $)	Annual Jun-2017	Annual Jun-2016	Annual Jun-2015	Annual Jun-2014	Annual Jun-2013
Name of largest country exposure	Indonesia	Brazil	Brazil	Mexico	Mexico
Name of second-largest country exposure	Brazil	Indonesia	Mexico	Brazil	Turkey
Name of third-largest country exposure	Mexico	Mexico	China	Turkey	China
Name of fourth-largest country exposure	China	China	India	China	India

Table 5

Five Largest Country Loan Exposures (Unweighted)* (cont.)

(Mil. $)	Annual Jun-2017	Annual Jun-2016	Annual Jun-2015	Annual Jun-2014	Annual Jun-2013
Name of fifth-largest country exposure	India	India	Indonesia	India	Brazil
Largest country exposure of loan exposures (unweighted amount)	16,435	16,162	15,505	14,910	14,891
Second-largest country exposure of loan (unweighted amount)	16,141	15,209	14,688	13,966	12,933
Third-largest country exposure of loan (unweighted amount)	14,816	14,709	12,978	13,640	12,900
Fourth-largest country exposure of loan (unweighted amount)	13,379	13,139	12,364	12,785	11,912
Fifth-largest country exposure of loan (unweighted amount)	13,021	12,929	12,271	11,975	11,552
Total loans (gross)	179,455	169,655	157,012	154,021	143,776

*Excludes impact from Exposure Exchange Agreements with IADB and AFDB.

Table 6

Asset Quality

	Annual Jun-2017	Annual Jun-2016	Annual Jun-2015	Annual Jun-2014	Annual Jun-2013
Loan portfolio					
Impaired (nonaccrual) loans/total loans (%)	0.2	0.3	0.3	0.3	0.3
ACE/impaired loans (x)	91	83	85	84	87

Funding And Liquidity

Our funding ratios indicate that IBRD does not have a funding gap below the one-year horizon. During the past two years, IBRD's assets exceed its liabilities at all horizons up to two years. We view IBRD's funding as broadly diversified by both geographic market and type of investor, given IBRD's frequent issuance in many markets and currencies. Notably, the bank did an inaugural Mulan issue in August 2016, an SDR (special drawing rights)-denominated bond issued in the Chinese local market. However, the bank's funding is, largely concentrated, overall, in U.S. dollars.

In fiscal 2017, IBRD's borrowings in the capital markets fell by 12% to $55.4 billion, consisting of net issuances of $20.2 billion, $30.7 billion of maturities, and $4.6 billion of planned calls or repurchases. The decrease in medium-and-long-term debt issuances in fiscal year 2017 is primarily due to the 34% decrease in net loan disbursements.

Investors perceive IBRD as a safe haven. IBRD bonds are eligible collateral for transactions with the European Central Bank, the Bank of England, the Reserve Bank of Australia, and the U.S. Federal Reserve, which we believe helps to assure access to a number of major lending markets in a stress scenario. IBRD bonds are also recognized as Level 1 high-quality liquid assets, which make them more attractive for bank treasuries. We understand that IBRD's market access improved during the financial crisis that began in 2008, on flight to quality. We believe this would likely happen again in a similar scenario.

IBRD increased the size of its liquid asset portfolio (our definition) during the fiscal year to $74 billion as of June 30, 2017, up 34% from fiscal 2016, resulting in some improved liquidity ratios compared with prior years. Our main liquidity ratios indicate that under extremely stressed market conditions, when the bank would not have access to the capital markets, IBRD could still fulfill its obligations for at least one year. As of fiscal year-end 2017, according to our main liquidity calculations, IBRD's potential sources of cash under our extreme stress scenario over its liabilities were 2.7x at the six-month horizon and 1.9x at one year. However, when taking into account undisbursed loans in a stress scenario (beyond those currently planned), we estimate IBRD may need to spread out potential disbursements.

IBRD does a lot of derivatives business, both as part of its investments, borrowings, and asset liability management, and on behalf of clients. At fiscal year-end 2017, derivatives liabilities outstanding amounted to $153.1 billion, approximately equivalent in size to IBRD's borrowings outstanding, although offset by $150.1 billion in derivatives assets. In connection with these derivatives, IBRD has entered into related collateral-posting agreements, which involve two-way credit rating triggers. These would require IBRD to post collateral if downgraded, even if only by one notch (to 'AA+') by both S&P Global Ratings and Moody's, or two notches by either, and if exposures were above certain thresholds. The latter decreases as the notches of downgrades from 'AAA' increase.

Nevertheless, we understand that the collateral amounts that IBRD could reasonably be required to post on a gross basis would likely be immaterial. At fiscal year-end 2017, we understand that $2,463 million (equivalent to about 3.5% of IBRD's liquid assets under our definition) would need to have been posted if the triggers were breached by a one-notch downgrade by both rating agencies or a two-notch downgrade by either. This figure was $776 million as of June 30, 2016.

Likelihood Of Extraordinary Shareholder Support

We assign no uplift for the likelihood of extraordinary shareholder support--in the form of 'AAA' rated shareholders answering one or more calls on their callable capital allocations in the event of a stress scenario--because we already assess IBRD's capital adequacy at our highest level without such support. In other words, we view IBRD as already enjoying all the credit-quality support it can expect from paid-in capital alone.

However, should IBRD's SACP weaken, we consider that 'AAA' rated shareholders could uphold the bank by answering one or more calls on their callable capital allocations in the event of a stress scenario. Ten 'AAA' rated shareholders could be called on to provide up to $36.9 billion of callable capital (11% of total liabilities at fiscal year-end 2017) to support IBRD debt service.

Appendix

Table 7

Summary Liquidity And Funding Ratios					
	Annual Jun-2017	**Annual Jun-2016**	**Annual Jun-2015**	**Annual Jun-2014**	**Annual Jun-2013**
Liquidity ratios					
Liquid assets/adjusted total assets (%)	18.1	14.8	14.7	13.7	12.8

Table 7

Summary Liquidity And Funding Ratios (cont.)

	Annual Jun-2017	Annual Jun-2016	Annual Jun-2015	Annual Jun-2014	Annual Jun-2013
Cash and cash equivalents/liquid assets (%)	1.2	5.4	5.0	13.8	15.5
Securities/liquid assets (%)	98.8	94.6	95.0	86.2	84.5
Liquid assets/gross debt (%)	35.8	30.2	31.3	30.5	29.2
Liquid assets/short-term debt by remaining maturity* (%)	189.2	158.4	135.0	127.3	116.6
Liquid assets net of deposits/total adjusted assets (%)	18.1	14.8	14.7	13.7	12.8
Liquid assets net of deposits/gross debt (%)	35.8	30.2	31.3	30.5	29.2
Liquid assets net of deposits/short-term debt by remaining maturity* (%)	189.2	158.4	135.0	127.3	116.6
Funding ratios					
Static funding gap§ at 1 year (x)	1.4	1.2	1.1	1.0	1.0
Short-term debt (by remaining maturity)/adjusted total assets (%)	9.6	9.3	10.9	10.8	11.0
Gross debt /adjusted total assets (%)	50.7	48.9	46.9	44.9	43.7
Gross debt net of liquid assets/adjusted total assets (%)	32.6	34.2	32.2	31.2	30.9
Short-term liabilities (by remaining maturity)/total liabilities (%)	10.7	10.9	13.4	13.1	14.9
Total liabilities/adjusted total assets (%)	90.2	90.0	88.7	89.1	87.9
Gross debt/adjusted common equity (x)	5.2	4.9	4.2	4.1	3.6
Short-term debt (by remaining maturity)/gross debt (%)	18.9	19.0	23.2	24.0	25.1

*Short-term debt by remaining maturity includes short-term debt (maturing in less than 12 months) and long-term debt maturing in the next 12 months. §The static funding gap is maturing assets divided by maturing liabilities. It is cumulative and based on scheduled receipts and payments.

Table 8

Summary Balance Sheet

(Mil. $)	Annual Jun-2017	Annual Jun-2016	Annual Jun-2015	Annual Jun-2014	Annual Jun-2013
Assets					
Cash and money market instruments	904	2,976	2,516	6,771	6,473
Securities	72,752	51,830	47,823	42,412	35,164
Memo:					
Liquid assets	73,656	54,806	50,339	49,183	41,637
Net loans	177,422	167,643	155,040	151,978	141,692
Purpose-related assets (gross)	179,455	169,655	157,012	154,021	143,776
Purpose-related assets (net)	177,422	167,643	155,040	151,978	141,692
Derivative assets	150,112	144,488	134,325	154,070	138,846
Fixed assets	1,114	1,083	1,042	1,010	969
Accrued receivables	1,272	1,059	592	557	578
Other assets, other	2,322	2,181	1,887	2,085	1,879
Total assets	405,898	371,260	343,225	358,883	325,601

Table 8

Summary Balance Sheet (cont.)

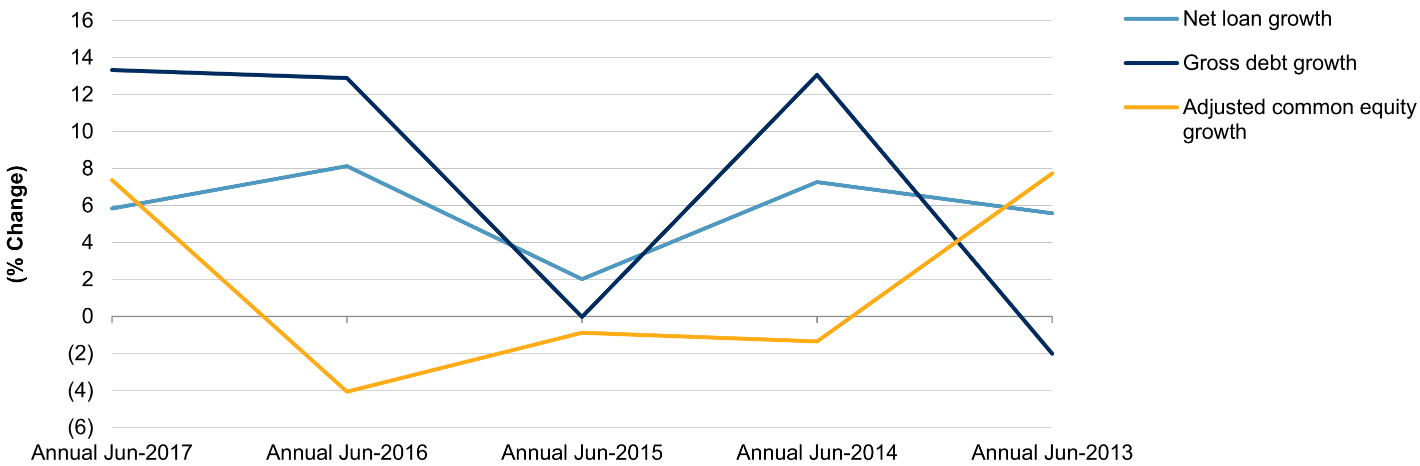
(Mil. $)	Annual Jun-2017	Annual Jun-2016	Annual Jun-2015	Annual Jun-2014	Annual Jun-2013
Liabilities					
Short-term debt	39,309	36,289	40,853	42,032	42,737
Long-term debt	167,006	147,119	123,702	122,384	106,697
Derivative liabilities	153,129	141,741	132,324	146,885	131,131
Other liabilities	6,656	9,048	7,709	8,597	5,513
Total liabilities	366,100	334,197	304,588	319,898	286,078
Shareholders' equity					
Paid-in capital and surplus	16,109	15,805	15,192	14,005	13,434
Retained earnings	27,759	27,996	27,501	28,287	29,265
Reserves (including inflation revaluations)	(694)	(612)	(843)	(245)	(255)
Accumulated other comprehensive income (loss)	(3,376)	(6,126)	(3,213)	(3,062)	(2,921)
Shareholders' equity	39,798	37,063	38,637	38,985	39,523
Memo:					
Total guarantees	5,687	5,220	1,432	1,804	1,881
Undisbursed loans (100%)	65,588	65,909	60,211	58,449	61,306

Table 9

Summary Statement Of Income

(Mil. $)	Annual Jun-2017	Annual Jun-2016	Annual Jun-2015	Annual Jun-2014	Annual Jun-2013
Interest income	3,582	2,648	1,728	3,349	3,728
Noninterest income	844	859	728	596	517
Total income	4,426	3,507	2,456	3,945	4,245
Interest expense	1,845	786	392	1,294	1,483
Provision for losses on loans	11	57	(10)	(60)	(22)
Other noninterest expenses	2,188	2,131	2,060	1,983	1,908
Total expenses	4,044	2,974	2,442	3,217	3,369
Transfers	(497)	(705)	(715)	(676)	(663)
Currency translation adjustments, unrealized gains/(losses), other profit/(loss)	(122)	667	(85)	(1,030)	5
Net income	(237)	495	(786)	(978)	218
Other comprehensive income	2,750	(2,913)	(151)	(141)	1,496
Comprehensive income	2,513	(2,418)	(937)	(1,119)	1,714
Memo:					
Net increase (decrease) in cash and cash equivalents during the year	(609)	911	(3,295)	(949)	(1,127)

Balance Sheet Trends



Related Criteria

- Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Multilateral Lending Institutions And Other Supranational Institutions Ratings Methodology, Nov. 26, 2012
- Bank Capital Methodology And Assumptions, Dec. 6, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- International Finance Corp. 'AAA/A-1+' Ratings Affirmed; Outlook Stable, Dec. 27, 2017
- International Development Association 'AAA/A-1+' Ratings Affirmed; Outlook Remains Stable, Nov. 10, 2017
- Supranationals--Special Edition 2017, Oct. 20, 2017
- Request For Comment: Multilateral Lending Institutions And Other Supranational Institutions Ratings Methodology, Oct. 11, 2017
- International Bank for Reconstruction and Development 'AAA/A-1+' Ratings Affirmed; Outlook Remains Stable, Jan. 23, 2017
- How an Erosion of Preferred Creditor Treatment Could Lead To Lower Ratings On Multilateral Lending Institutions, Aug. 26, 2013

Ratings Detail (As Of April 17, 2018)		
International Bank for Reconstruction and Development		
Issuer Credit Rating		
Foreign Currency		AAA/Stable/A-1+
Senior Unsecured		AAA
Short-Term Debt		A-1+
Issuer Credit Ratings History		
05-Sep-1997	*Foreign Currency*	AAA/Stable/A-1+
05-Apr-1990		AAA/Stable/--
13-Sep-1959		AAA/--/--

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.